



What Makes a Good Precinct?

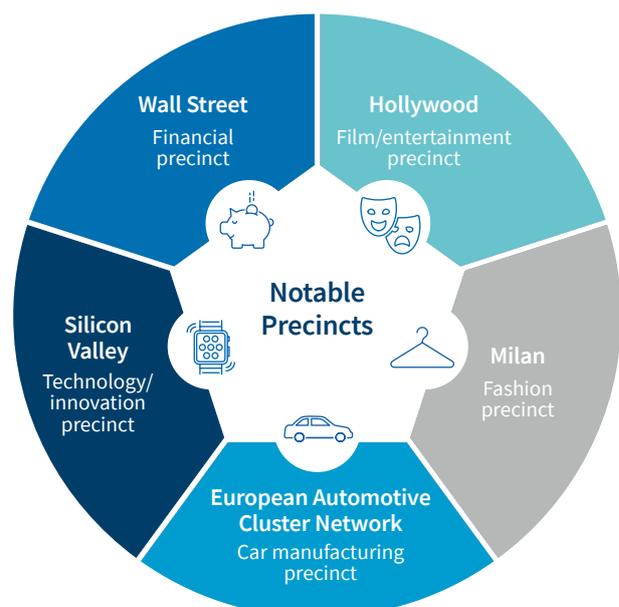
Insights Series on the Role That Precincts Play in Evolving the Urban Landscape and Growing Industries and Economies

A precinct is a complex and coordinated system that, with the help of public and private investment, drives innovation and fosters growth. However, identifying and developing a precinct is not always as simple as drawing a line on a map – to be successful, it often needs to be built on a foundation of natural industry growth and agglomeration.

What is a Precinct?

An economic precinct (sometimes called a *cluster*) is a place where businesses in related industries utilise proximity, collaboration and networks to increase their profit. Correspondingly, precincts are associated with a range of positive economic outcomes, such as employment growth, productivity, wages and even foreign investment.^{1,2}

Precincts are everywhere – some of the most notable precincts include:



Competition and cooperation work in tandem for business success

Precincts improve the chances of success for businesses by utilising both competition and cooperation to drive productivity growth. Businesses in precincts become more productive through:

- lower supply chain costs
- improved access to labour and lower hiring costs
- greater access to consumers.

However, businesses are not the only beneficiaries of precincts. Suppliers, employees and consumers also enjoy advantages, and therefore, with so many parties impacted, governments have an interest in helping precincts to succeed. Tangible benefits of precincts that are of interest to governments include increased productivity, increased regional competitiveness and higher average wages.³



Supply chain improvements benefit suppliers

Agglomeration incentivises suppliers to an industry to locate themselves near the cluster to take advantage of a larger and closer customer base. This increases the ability of the firms in the cluster to specialise and develop comparative advantage. This also reduces shipping costs for firms, by reducing the need to ship goods long distances or import from overseas. Cooperation of firms in the transport of intermediate goods also reduces costs.



Labour markets are more competitive

Precincts often develop around a strong, pre-existing concentration of skilled labour sought by an industry. This attracts more specialised workers and gives businesses easier access to their knowledge and ideas.



Consumers enjoy easier access to goods and services

When businesses cluster together, consumers benefit from easier access to similar products and services. A shopping mall is an example of a cluster of businesses offering similar products. Consumers benefit from reduced search and transaction costs as they can travel to a single location to access a greater variety of options. This allows consumers to more easily find the specific good or service they require.

